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Chairman Gilbert, members of the Tax Policy Committee, thank you very much for the opportunity to appear before you today in support of HB 4346 and HB 4804, legislation that would streamline the sales and use tax remittance system for large Michigan taxpayers.

By way of background, International Paper is a global manufacturer and distributor of pulp, paper and packaging products, proudly employing more than 600 people in Michigan at 16 business locations.

Based on the experience of our finance professionals, Michigan's system for remitting sales and use tax is the most cumbersome, time-consuming and inaccurate in the nation. We are not suggesting a reduction in the tax rate, but rather changes that would allow taxpayers to remit their payments in a more efficient and accurate manner.

Prior to 1993, Michigan taxpayer's remitted all sales and use tax to the state on the 15th of each month. For example, September's sales and use tax payments would have been due in full on October 15th. In 1993, in the face of cash flow problems, the state imposed a prepayment system for taxpayers with an annual tax liability of \$720,000 or more. This effectively shifted the borrowing needs of state government to the private sector. Using the tax liability for the same month of the prior year as a baseline, 95% of a given month's taxes were due by the 18th of that month along with a reconciliation payment for the previous month. It is my understanding that the \$720,000 threshold was used because that is the dollar figure over which electronic funds transfers were required for remittance.

In 1999, that system was amended so that a transmission of 50% of the prior years' tax liability for the same month was due on or before the 15th day of the current month. A second transmission of 50% would be due on or before the last day of the current month. A third reconciliation payment was also due on the last day of the month. Please note, the three payments are required for sales, use, and use tax on sales and rentals. Thus, nine EFT payments are required each month.

In 2004, in accordance with the Streamlined Sales Tax Agreement, the date for the first prepayment was changed from the 15th to the 20th. This reflects the current system.

Because prior year tax data is used as the baseline, the current system often results in extremely inaccurate payments to the state. For years International Paper made overpayments to the state in the range of \$200,000 to \$300,000. We would then file an annual return in February with a refund due, and usually wait six to nine months to receive the cash back. For one annual return we waited more than eighteen months.

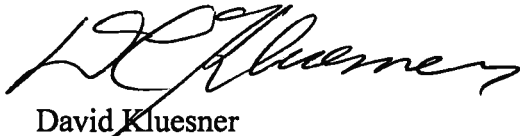
In our opinion, the current system is unnecessarily complicated and inaccurate. We propose the creation of an additional prepayment option for large taxpayers that would allow the state to continue collecting revenues in advance, but would not encumber taxpayers with the aforementioned administrative difficulties.

Under our proposal, a retailer or other business that had a total Michigan sales and use tax liability of \$720,000 or more must remit to the state, on or before the 20th day of each month, a prepayment amount equal to 75% of the tax liability for the previous month plus a reconciliation payment equal to the difference between the tax liability for the prior month less any prepayments made for that month. All sales tax, use tax on purchases, use tax on sales and rentals and the prepayment amount may be remitted in one single payment.

Allowing taxpayers to utilize data for the prior month instead of the prior year would, in our case, result in less of an administrative burden for the taxpayer and more accurate tax payments to the state. We believe this would increase efficiencies for all parties.

This change will not in and of itself dramatically alter the economic climate within Michigan, but it is one step the state can take to ease an administrative burden and make tax compliance more user friendly.

Thank you in advance for your consideration and support.

A handwritten signature in black ink, appearing to read "David Kluesner", with a stylized flourish at the end.

David Kluesner



Enhancing your life ... in so many ways

International Paper is a global paper, packaging and distribution leader that creates a wide range of products that people rely on every day. We proudly employ 55,000 employees worldwide, including 38,000 in the United States working at 450 sites across 43 states. Our 613 employees in Michigan are located in the following facilities throughout the state and we invite you to contact us if you would like to visit our facilities to learn first-hand about International Paper's operations.

Packaging

- Kalamazoo Container Plant
- Sturgis Converting Facility
- Three Rivers Container Plant

Distribution

- Ann Arbor xpedx Paper & Graphics Store
- Dearborn xpedx Paper & Graphics Store
- Detroit xpedx
- Farmington Hills xpedx Paper & Graphics Store
- Flint xpedx Paper & Graphics Store
- Grand Rapids xpedx
- Grand Rapids xpedx Paper & Graphics Store
- Lansing xpedx Paper & Graphics Store
- Livonia xpedx Paper & Graphics Store
- Oak Park xpedx Paper & Graphics Store
- Port Huron xpedx
- Roseville xpedx Paper & Graphics Store
- Troy xpedx Paper & Graphics Store

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